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*Vice President, Environmental Services*

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May 17, 2002

Patrick Cummins  
WRAP Co-Director  
Western Governors' Association  
1515 Cleveland Place, Suite 200  
Denver, CO 80202

Re: Options for SO<sub>2</sub> Annex in Federal Multi-Pollutant Legislation

Dear Pat:

I am writing on behalf of Xcel Energy to submit the following comments on the WRAP's April 22, 2002 memorandum entitled "Discussion Paper: Options for Preserving the WRAP's SO<sub>2</sub> Annex in Federal Multi-Pollutant Legislation for Electric Utilities."

In March 2002, I submitted comments to the WRAP regarding the President's Clear Skies Initiative and its impact on the West. A copy of those comments is attached as Exhibit A. As those comments make clear, Xcel Energy strongly supports the efforts of the Administration to create a more rational and effective program to address emissions from the electric utilities. As it is currently enforced, the Clean Air Act is unwieldy, uncertain and far too costly. For this reason, we have endorsed the concepts that lie behind Clear Skies. Specifically, as set forth in Exhibit A, Xcel Energy endorses:

- A single, flexible emissions trading program for the utility industry modeled on the success of the Acid Rain program;
- Realistic emission reduction targets for the three emissions of concern (SO<sub>2</sub>, NO<sub>x</sub> and mercury);
- A workable time-schedule to achieve those reduction;
- Elimination of numerous unnecessary programs that exist under the current Clean Air Act, including the New Source Review program, the Regional Haze program, and the mercury Maximum Achievable Control Technology standard; and
- Recognition of differences between the nation's regions without sacrificing the flexibility that is critical to the program.

In your April 22 memorandum, you requested comment on two approaches to "preserving" the WRAP's SO<sub>2</sub> Annex in multi-emissions legislation. The first approach would write the Annex into Federal law and require utilities to comply with the annex

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instead of the national multi-emissions program. The second would allow utilities in the West to participate in the national program, but would create a second, "nested" cap if the West does not achieve the reductions required under the Annex. Xcel Energy believes that neither of these approaches is appropriate and urges the WRAP to endorse a more flexible system that encompasses national trading of emissions.

A national trading system makes sense for the West. It provides the West with the flexibility to trade into the national trading markets for all pollutants, including SO<sub>2</sub>. This fact is especially important given the great disparity between utility emissions in the East and the West. By allowing unrestricted national trading between the regions, the West would have a greater opportunity to cost-effectively reduce its emissions through either emission reductions within the region or trading with plants outside the region. This flexibility, however, will not impede environmental progress the WRAP states. In fact, the Administration designed the Clear Skies Initiative with the work of the WRAP in mind.

Because of the great advantages of flexibility as embodied in national emissions trading for the West, Xcel Energy encourages the WRAP not to reject it in considering its position on multi-emissions legislation. For this reason, Xcel Energy believes that neither approach set forth in the April 22 memorandum is in the best interests of the West. The first option would take the West out of the national program entirely and force the region to comply with the WRAP program as originally designed. This option eliminates all of the advantages of the national program. Ironically, it could also have an adverse environmental impact on the West. By preventing emission trading with Eastern sources, this option would deny the West the opportunity to use emissions trading with utilities in Eastern states to reduce its emissions beyond the targets set forth in the Annex.

The second option would allow some trading outside the region, but would create a "nested cap" that would restrict the West's flexibility by eliminating the possibilities of trades if the region exceeds the Annex 2018 milestone. While this approach is an improvement over the first option, it still puts unnecessary restrictions on the emissions market. These restrictions could have significant economic consequences. They would make planning for compliance difficult. Unlike a pure emissions market where the price of an allowance would be the only signal that source would need to make compliance decisions, an individual source under the WRAP's "Option 2" would not know whether or where to purchase allowances or reduce emissions until it became clear whether the region was above the targets set in the Annex. This uncertainty would raise the cost of compliance and create a bias against emissions trading outside of the region - i.e. a bias against the very types of emissions trades that may be most cost-effective.

The WRAP's second option would impose these potentially significant additional costs without any real environmental benefit. The 70% nationwide reduction in SO<sub>2</sub> proposed under the Clear Skies Initiative is a huge reduction and will result in tangible benefits in the West. Moreover, as indicated above, the Administration designed the program to reflect the work of the WRAP. The emission reductions that would result will likely be comparable and may be greater than that required by the Annex. In fact, Clear

collaboration not polarization, national standards -- neighborhood solutions, and rewarding results not programs.

#### **The Role of the WRAP Under a Comprehensive Federal Program**

The WRAP process that produced the SO<sub>2</sub> emission reduction program was a consensus, compromise process. None-the-less, the WBRT recognizes there are interests in the West that do not believe the program is as good as it could be. In the development of a comprehensive federal program, WBRT continues to see a role for the WRAP consistent with the current role in the organizational charter. The charter states, that:

*"The WRAP has no regulatory authority and recognizes that all legal authority is reserved by its members in accordance with existing law."*

In addition,

*"The organization will provide a coordination mechanism with regard to science and technology support for policy and programmatic uses in the western United States."*

WBRT believes the continuation of the WRAP as a clearinghouse for information, and for providing technical support and coordination for the states and tribes, will be important under any eventual national multi-pollutant program. In addition, we support the stakeholder process, which allows for the development of Western solutions to Western problems.

WBRT appreciates your consideration of our suggestions and we look forward to continue providing input as this issue moves forward. If you have any questions or comments regarding the position of the WBRT, please feel free to contact Ruth McCormick of our staff at 703-549-1466 or by e-mail at [ruth@westernroundtable.com](mailto:ruth@westernroundtable.com).

Sincerely,



Duane Yantorno, Chairman  
WBRT Air Quality Committee



Kelly Mader, Chairman  
WBRT Energy Committee